



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MARSHALL COUNTY SHERIFF**

June 30, 1998 Through December 31, 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.STATE.KY.US/AGENCIES/APA**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS.....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	15



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Mike Miller, County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Sheriff of Marshall County, Kentucky, for the audit period of June 30, 1998 through December 31, 1998. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff was required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Sheriff for the period June 30, 1998 through December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Mike Miller, County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Sheriff Purchased Two Used Vehicles For \$17,500 Without Obtaining Bids
- The Sheriff's Office Did Not Make Timely Deposits
- The Sheriff Paid Penalty And Interest Of \$965 For Late Payment Of FICA Withholdings
- The Sheriff Should Have A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated August 2, 1999 on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 2, 1999

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

June 30, 1998 Through December 31, 1998

<u>Receipts</u>			
Federal Grants		\$	15,477
State Grants			17,548
State Fees For Services:			
Finance and Administration Cabinet			8,401
Circuit Court Clerk:			
Sheriff Security Service	\$	11,477	
Fines And Fees Collected		<u>4,531</u>	16,008
Fiscal Court			158,593
County Clerk - Delinquent Taxes			7,612
Commissions On Taxes Collected			343,636
Fees Collected For Services:			
Auto Inspections	\$	7,300	
State Arrest Fees		9,707	
Carrying Concealed Deadly			
Weapons Permits		1,979	
Fugitive Return		352	
Serving Papers		<u>9,225</u>	28,563
Other:			
Sheriff Sales	\$	699	
Miscellaneous		<u>2,819</u>	3,518
Interest Earned			7,201
Borrowed Money:			
State Advancement			<u>62,572</u>
Gross Receipts		\$	669,129

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-			
Deputies Gross Salaries	\$	225,390	
Protection Funds		17,427	

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
June 30, 1998 Through December 31, 1998
(Continued)

Operating Disbursements and Capital Outlay: (Continued)

Contracted Services-

Advertising	\$ 579
Cellular Expense	1,173
Radar Expense	2,254
Radio Expense	11,623

Materials and Supplies-

Office Materials and Supplies	26,990
Uniforms	25,922
Uniforms-Clothing Allowance	2,000

Auto Expense-

Gasoline	16,126
Maintenance and Repairs	6,017
Mileage	2,817

Other Charges-

Conventions and Travel	232
Dues	900
Postage	7,846
Insurance	45
Blood Alcohol Test	499
Bond	597
Jury Meals	123
K-9 Expense	389
Schools	529
Sheriff Sales	414
Transport Prisoners	6,327
Carry Concealed Deadly Weapons Permits	1,295
Miscellaneous	1,371
Bad Debt Expense	10
Penalty and Interest	965

Capital Outlay-

Officer Equipment	37,890	
Vehicles Equipment	<u>61,859</u>	\$ 459,609

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
June 30, 1998 Through December 31, 1998
(Continued)

Disbursements (Continued)

Debt Service:		
State Advancement	\$	62,572
Reimbursements To Fiscal Court - Former Sheriffs' Payroll*		<u>81,550</u>
Total Disbursements	\$	603,731
Less: Disallowed Disbursement - Penalty and Interest		<u>(965)</u>
Total Allowable Disbursements	\$	<u>602,766</u>
Net Receipts	\$	66,363
Less: Statutory Maximum		<u>24,363</u>
Excess Fees	\$	42,000
Payments to County Treasurer-		
March 3, 1999	\$	18,804
July 29, 1999		<u>22,231</u>
		<u>41,035</u>
Balance Due County at Completion of Audit	\$	<u><u>965</u></u>

* The fiscal court paid the former Sheriffs' payroll. The current Sheriff reimbursed the fiscal court for the prior Sheriffs' payroll expenses when sufficient revenues of the office were collected in 1998.

The accompanying notes are an integral part of the financial statement.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Hazardous covered employees were required to contribute 7.0 percent of their salary to the plan until June 30, 1998. The rate changed to 8.0 percent July 1, 1998. The county's contribution rate for hazardous employees was 18.69 percent.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff.

Note 4. Lease

The office of the Sheriff is committed to a lease agreement with MPH Industries, Inc. for a radar machine. The agreement requires a monthly payment of \$140 for 4 months to be completed on May 27, 1999. The total balance outstanding was \$561 as of December 31, 1998.

Note 5. Drug Fund

The Marshall County Sheriff's office has a drug fund established by an order of the Circuit Court. Receipts result from the seizure of money, sale of seized property, donations, and interest. The funds are spent for supplies, equipment, vehicles, and drug awareness programs. The Sheriff began with a balance of \$1,315. During the audit period, there were receipts of \$8,790 and disbursements of \$2,960, leaving a balance of \$7,145 as of December 31, 1998.

Note 6. Drug Awareness Resistance Education Fund (DARE)

The Marshall County Sheriff's office has established a DARE fund. Receipts come from the DARE national organization headquarters, donations, and interest. The funds are spent for supplies and drug awareness programs and materials. The Sheriff began with a balance of \$114. During the year, there were receipts of \$3,833. There were no disbursements, leaving a balance of \$3,947 as of December 31, 1998.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 7. Grants

The Sheriff's department is the recipient of several grants. The Community Oriented Policing Services provides three of these. They include the Universal Hiring Program Grant, the Community Oriented Policing Services FAST Grant, and the Problem Solving Partnership Grant. Two other grants received by the Sheriff's department are the Purchase Area Drug Task Force Grant and the Local Law Enforcement Block Grant. Some of the grant funding is deposited directly into the Sheriff's Fee Account, while other grant funds pass through the Marshall County Fiscal Court to the Sheriff. In 1998, the grant funding received directly into the Sheriff's fee account totaled \$15,477. Also in 1998, \$76,781 of the \$158,593 the Fiscal Court paid the Sheriff was grant funding that passed through the Fiscal Court.

COMMENTS AND RECOMMENDATIONS

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
COMMENTS AND RECOMMENDATIONS

June 30, 1998 Through December 31, 1998

1) The Sheriff Purchased Two Used Vehicles For \$17,500 Without Obtaining Bids

During our audit, we noted that the Sheriff spent \$17,500 for two used vehicles. The Sheriff is required to advertise for bids on purchases over \$10,000. We found no invoice, no advertisement, and no bid. We recommend that the sheriff comply with KRS 424.260, which states "...no sheriff...may make a contract, lease, or other agreement for materials, supplies...equipment involving an expenditure of more than \$10,000, without first making newspaper advertisement for bids."

Management's Response:

Each vehicle cost less than \$10,000. It was my understanding at the time I was in compliance with the law.

2) The Sheriff's Office Did Not Make Timely Deposits

During our audit, we noted abnormal delays in deposits throughout the audit period. For example, receipts of \$230 from July 1, 1998 were not deposited until July 10, 1998. This July 10, 1998 deposit also included July 3, 1998, July 6, 1998, and July 7, 1998 receipts combined to make one cash checkout sheet. This problem was due to a cash checkout not being made daily and deposits not being made when deposits were over \$200 or at least once a week. In the June 30, 1998 through December 31, 1998 audit period, there were approximately 125 working days and deposits were made on only 50 of those days.

We recommend that the Sheriff's office post receipts to a daily checkout sheet and the receipts ledger as required by the Uniform System of Accounts established under the authority of KRS 68.210. In addition, a deposit should be made when receipts are greater than \$200 per cash drawer or once a week, whichever comes first.

Management's Response:

None

3) The Sheriff Paid Penalty And Interest Of \$965 For Late Payment Of FICA Withholdings

Penalties and interest were paid from the 1998 fee account in the amount of \$965 for late payment of FICA withholdings. Technical Audit Bulletin 93-001 disallows penalties and interest for late payments. We recommend that the Sheriff remit \$965 to the fiscal court and comply with TAB 93-001 in the future.

Management's Response:

Resulting from a misunderstanding with the Department of Criminal Justice Training, Fiscal Court, and the Sheriff's office, these withholdings were late.

MARSHALL COUNTY
TERRY ANDERSON, SHERIFF
COMMENTS AND RECOMMENDATIONS
June 30, 1998 Through December 31, 1998
(Continued)

4) The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The Sheriff had a bank balance of \$298,061; FDIC insurance of \$100,000; and collateral pledged or provided of \$700,000 as of December 16, 1998. Even though the Sheriff obtained collateral of \$700,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

These issues are being taken care of now.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Mike Miller, County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Marshall County Sheriff for the period of June 30, 1998 through December 31, 1998, and have issued our report thereon dated August 2, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Purchased Two Used Vehicles For \$17,500 Without Obtaining Bids
- The Sheriff's Office Did Not Make Timely Deposits
- The Sheriff Paid Penalty And Interest Of \$965 For Late Payment Of FICA Withholdings

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable condition

Honorable Mike Miller, County Judge/Executive
Honorable Terry Anderson, Marshall County Sheriff
Members of the Marshall County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Purchased Two Used Vehicles For \$17,500 Without Obtaining Bids
- The Sheriff's Office Did Not Make Timely Deposits

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

- The Sheriff's Office Did Not Make Timely Deposits

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed-
August 2, 1999

